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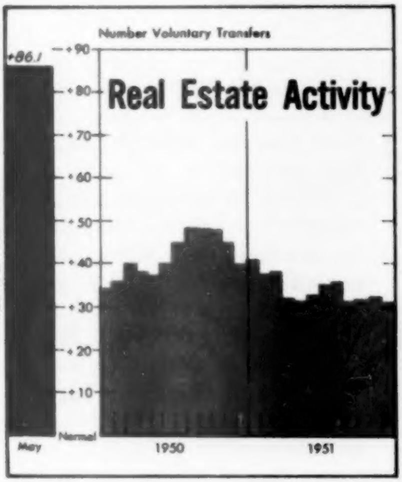
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

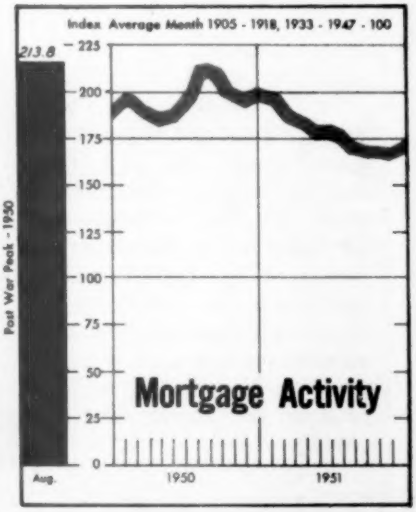
SUMMARY OF FORECASTS FOR 1952

REAL ESTATE ACTIVITY



In December 1951 the activity index stood at 30 points above normal. In other words, real estate transfers were still being made at a rapid rate. The boom, after reaching a secondary postwar peak in August of 1950, began a slow and steady decline. Although credit controls and financing difficulties contributed to this decline, a large part of it was probably attributable to old age. After all, this boom has lasted a long time, and it has given signs of being tired. The outlook for 1952 is for a continued drop in the number of sales, but the average level will remain above normal. This will be true in most metropolitan areas, and particularly true in the so-called defense areas.

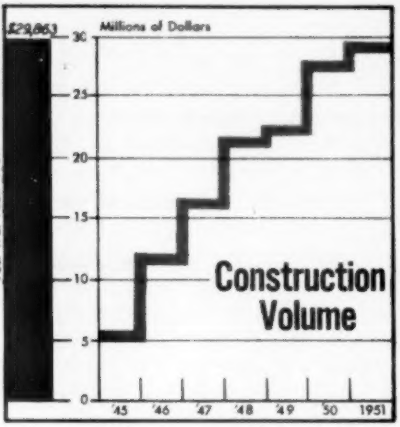
MORTGAGE ACTIVITY



The effects of credit controls in late 1950 and the money panic in early 1951 are easily apparent on the chart on the right. Mortgage activity hit its postwar peak in September 1950, the month preceding serious credit control. A steady decline followed until early 1951, when the temporary and so-called shortage of lendable funds caused a sudden dip in our index. The remainder of 1951 was characterized by a continued slow decline, until December, when an encouraging upturn occurred. The first part of 1952 will be better than the middle part of 1951, but by the end of this year, mortgage activity will again be in a downward trend. Financing will, naturally, be somewhat brisker in defense areas.

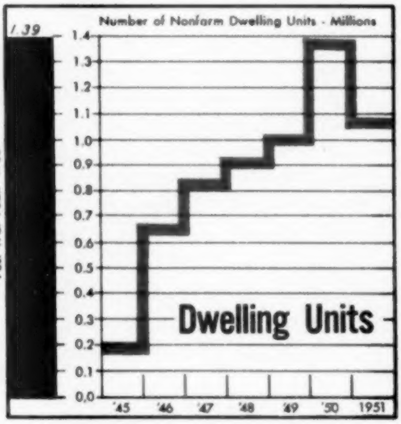
CONSTRUCTION VOLUME

Total dollar volume of construction of all types reached an all-time peak in 1951 of almost $30 billion. During 1952, this total will shrink to somewhere in the neighborhood of $24 billion. Virtually all of this decline is based on reduced physical volume, since we anticipate very little decline in costs. Even a drop of this magnitude will make 1952 the third best year in the country's history.



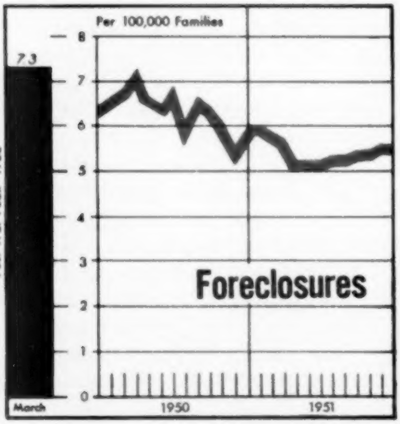
DWELLING UNITS

Last year we thought that the government had relieved us of our responsibility of guessing the probable annual totals, but its "target" of 850,000 units proved to be much too pessimistic. This year we have had a series of maximums announced by the President and various government officials. These have been 850,000, 600,000, 660,000 and, at last, 800,000. Our guess is between 770,000 and 825,000. Big issues: copper shortages; credit controls: more pressure for lower down payments; buyer's market: fewer homes will be <u>bought</u> - more will have to be sold!



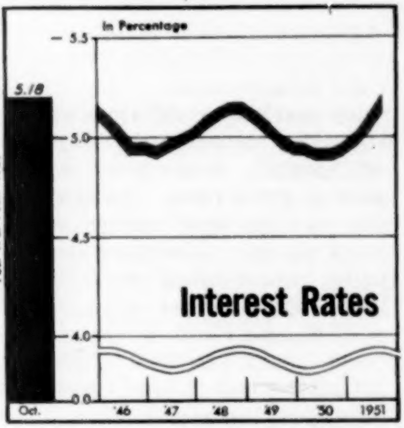
FORECLOSURES

Strangely enough, the postwar peak in foreclosures was near an all-time low. It's hard to imagine fewer than seven foreclosures per 100,000 families. Nevertheless, the index has moved lower and hit a virtual bottom of five foreclosures per 100,000 families in the middle of 1951. Its slow increase during late 1951 can hardly be considered ominous. However, its trend will probably be slowly upward, and a sharp recession, or drop in value, could move it up rapidly.



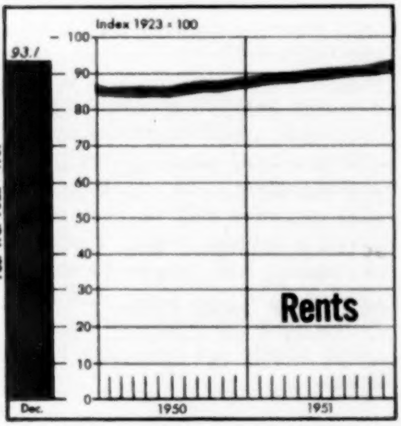
INTEREST RATES

In these days of price fixing and money management, expediency often replaces common sense. (See pages 47 and 48.) It is, therefore, virtually impossible to guess whether or when the government will tamper with the interest rate. Without going into a long academic discussion, we will simply guess that the rate on conventional mortgages will creep up slowly during the first part of 1952. This index is an extremely delicate one, however, and we will watch it closely and report frequently on it during the year.



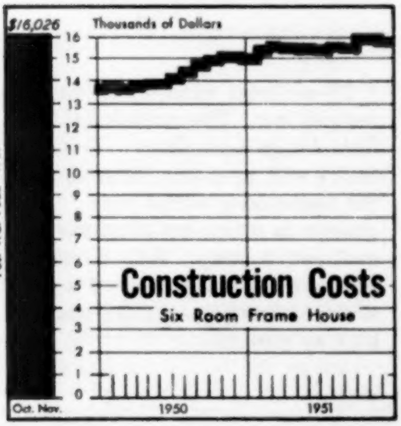
RENTS

The slow rise in rents during the past few years will probably not accelerate in the next several months. This is an election year, and Congress is likely to lean more toward strengthening rent controls than weakening them. Some increases have been allowed in all cities, and in decontrolled cities, rents have risen by a slightly larger percentage.



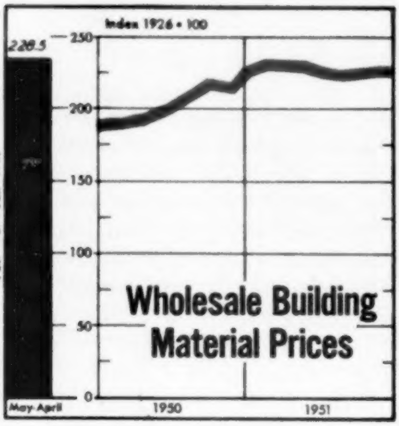
CONSTRUCTION COSTS

This index, now at an all-time high, is expected to change very little during 1952. Some price declines in lumber items will occur, but will be offset by price increases in metal items. Hourly labor rates will rise, but declining volume will cause lay-offs of inefficient and marginal workers. This, in turn, will cause an increase in output per man hour, which will just about wash out the rate increases. Net result: very little change - up in some sections of the country, where labor and materials are (temporarily) short, and down in those sections where both are in good supply.



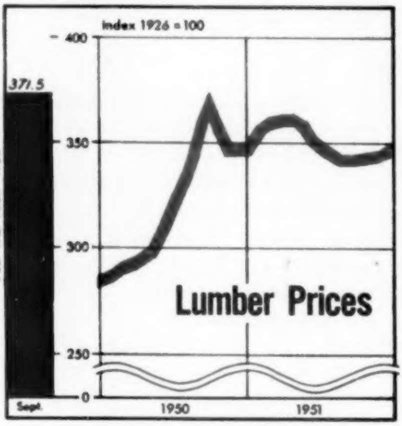
BUILDING MATERIAL PRICES

With total construction volume dropping, and with most materials in adequate (to abundant) supply, there is little reason for a general price rise. Metal items: copper will continue tight - prices running toward black market. Aluminum - supply will improve toward end of year. Steel - very little reason to expect delays because of lack of steel, but steel workers will win pay rises, which will lead to price increases. All other items in good supply, with steady or slightly lower prices.



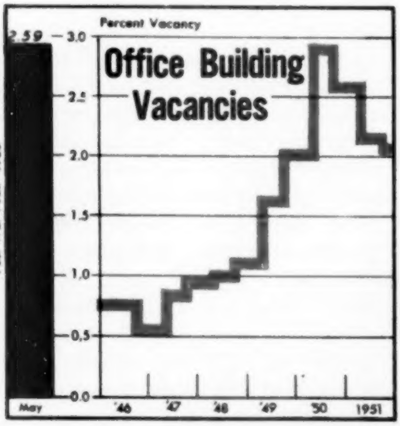
LUMBER PRICES

Average monthly production and imports have been climbing gradually; stocks at the mill and total stocks have gone up rather rapidly since 1946. Inventories will probably increase still further during 1952 as building volume drops. There will be plenty of lumber, and prices have turned down. Chances are that they will continue down rather than turn up during 1952. Retail yards should operate on a hand-to-mouth basis.



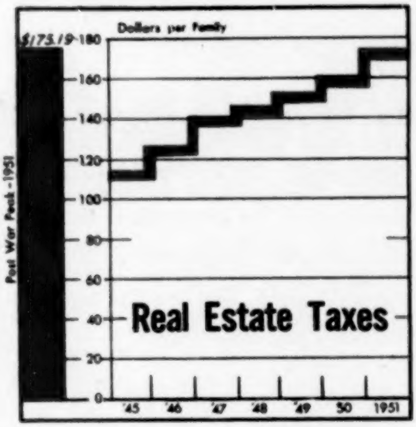
OFFICE BUILDING VACANCY

A 2% national vacancy is very close to the record low. The outlook for 1952 is for continued high occupancy. Government occupancy will probably increase slowly during the remainder of the year. Any significant change in office building vacancies is several years away. Well-located office buildings are still considered a prime investment; however, equities should be kept as high as possible.



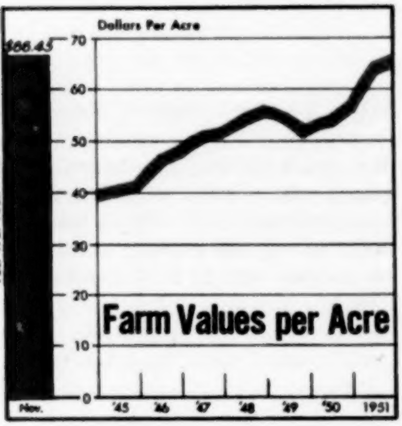
REAL ESTATE TAXES

During the postwar period the average real estate tax per family has risen from $114.76 to $175.19. This is an increase of 52%, and all indications point toward still heavier burdens for 1952 and 1953. While increases are inevitable, it is essential that the load be evenly distributed. With so many cities using antiquated tax rolls, much work is needed and will be done in the field of equalization.



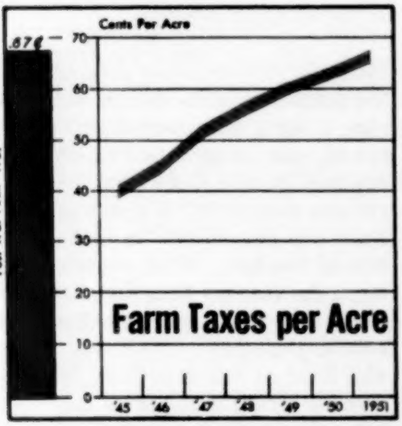
FARM VALUES PER ACRE

Last year farm values increased in every State in the Union except Maine. These increases have naturally followed the continuing depreciation of the dollar. While present high values may start to slip during 1952, a well-chosen and well-managed farm will continue to be a good investment for many years to come. However, a conservative policy dictates that the mortgages be cleaned up, even on the best farms, and that marginal farms be disposed of. Now is an excellent time to unload any farm that is not worth holding for the long pull.



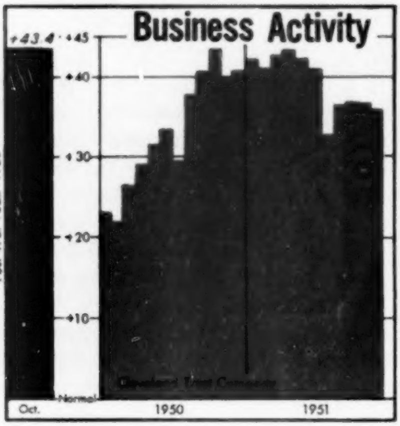
FARM TAXES PER ACRE

Like city real estate taxes, farm taxes seem destined to continue to rise for at least the next year or two. Since the end of World War II, the average tax per acre has risen 63%.



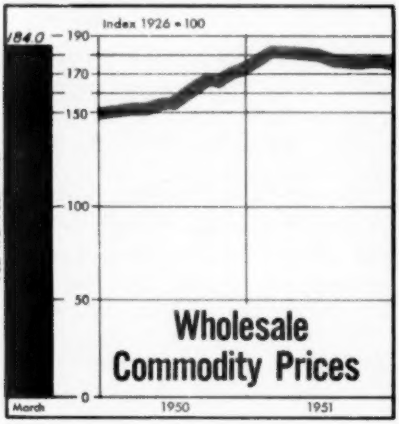
BUSINESS ACTIVITY

All of us know that 1952 will be dominated by a high level of defense spending, and the usual pyrotechnics of an election year. Demand will continue strong, if not hectic. Because of the tremendous production of the past few years, the consumer is well supplied with most items. The urgency of demand is gone, and now the purchase of many items which were formerly in short supply is optional and can be deferred by the consumer without undue hardship. Net result - a substantial volume, although perhaps lower than 1951.



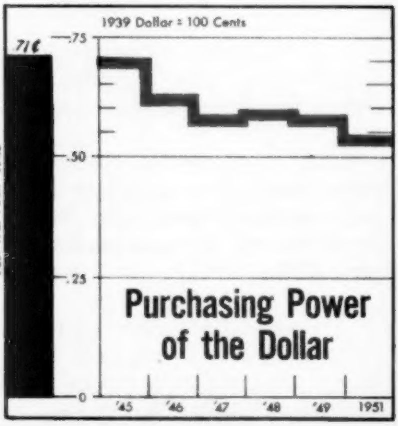
WHOLESALE COMMODITY PRICES

Not much change, but those changes that do occur will tend to be downward during the first half of 1952. Watch this factor carefully during the ensuing months for signals as to what will be forthcoming at the retail level.



PURCHASING POWER

Inflation will probably level off and purchasing power stabilize during early 1952. Barring a big government deficit or another war scare, purchasing power should improve slightly by this time next year. If stocks remain adequate, the consumer is apt to limit his purchases in either a rising or falling market. If the price rises, he drops from the market because of the increase; if there is a drop, purchasing is deferred, awaiting further reductions. This reaction will first be felt in volume, however, before it is reflected in the price tag.



RESIDENTIAL CONSTRUCTION AND INTEREST RATES

THIS field should be the scene of a knock-down drag-out fight in 1952, but it probably won't be - or, if it is, it will be the wrong fight because the right one apparently isn't shaping up. We're referring to the fight over the FHA-VA low interest rates, and it looks as though the government and Senator Maybank can win by default.

Mortgage lenders and home builders are both keenly aware that FHA-VA interest rates represent the only serious shoal water in the deepening stream of mortgage funds. However, neither group has made an effective effort to dredge the channel. The mortgage lenders have trotted out a few proposals for an industry-created secondary market, and have spoken wistfully and wishfully for a continuation of Fanny May. This amounts to nothing more than reaching for a pair of crutches to support the shaky status quo.

Some builders actually don't seem to care where the money comes from so long as enough of it is available to finance a million-plus housing units per year, ad infinitum. Of course, they give lip service to free enterprise financing by saying how dreadful a direct lending program would be, but at the same time they snipe at the mortgage industry for not making low-rate loans - loans which not one builder in ten would make with his own money. Many of them seem to believe the psychology of the times, that "everyone who wants a home should have one," and if private enterprise won't finance at 4% - then the government will simply have to do the job.

This represents the beginning of a dangerous schism in the ranks arrayed against socialism. The real estate field, made up of brokerage, financing and construction, presents the most formidable force for freedom in our country and, therefore, in the world. All three must stand and fight together for the principles they all know are right.

The interest rate muddle should be attacked directly and vigorously by the entire real estate field on the simple grounds that the FHA-VA rates are unrealistically low in today's market and that the only possible solution is for them to be set free of governmental control.

In view of current interest rates on government bonds and other first-class securities, VA's and many FHA's are not worth par. In our opinion, VA mortgages at the present time are worth from 96 to 98. Many banks have been offered VA's toward the lower end of this range, and we know of actual large offerings which have been for sale and refused at 96-1/4.

A bank, a savings and loan association, or a life insurance company is a depository for other people's money. These institutions have a primary responsibility to the people whose funds they invest. It is not the best investment the bank can make to make a VA loan at par which, on the market, is worth 96. Our

advice to financial institutions has been to make VA loans only in their own communities, and only to their own depositors, largely from the standpoint of maintaining good public relations. It seems to us that they are not justified in going beyond this in their lending policy.

The vast majority of mortgagors think in terms of monthly payments. Most of them do not know, or remember, what interest rate they pay. The entire problem of how much the veteran or FHA mortgagor shall pay has been magnified far beyond its true importance to the mortgagor. If VA loans were allowed to carry a 4½% rate, the new borrowers on a 20-year $8,000 loan would pay $50.64 per month, or $2.16 per month more than under the present 4% rate. A 20-year $8,000 FHA loan at 5% would carry a pay-off of $52.80 per month, instead of $50.64 under the 4½% rate. Such a trifling difference to the mortgagor is certainly not worth the hue and cry raised against it in Washington.

Our belief is that the present FHA-VA rate structure is being maintained in order to facilitate government entrance into the direct lending field on a grand scale - as evidenced by Senator Maybank's bill. No other reason makes any sense at all. The issue should be fought out on that basis, and the builders and brokers should join with the mortgage lenders in bringing realism back to home financing.

During 1952, conventional lending will represent a larger percentage of total lending than it has in the past, when FHA's and VA's were more attractive.